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RUEHBY/AMEMBASSY CANBERRA IMMEDIATE 2809  
RUEHLO/AMEMBASSY LONDON IMMEDIATE 2202  
RUEHFR/AMEMBASSY PARIS IMMEDIATE 6282  
RUEHRO/AMEMBASSY ROME IMMEDIATE 2175  
RUEHRL/AMEMBASSY BERLIN IMMEDIATE 1505  
RUEHGH/AMCONSUL SHANGHAI IMMEDIATE 0475  
RUEHHK/AMCONSUL HONG KONG IMMEDIATE 6601  
RUEHOK/AMCONSUL OSAKA KOBE IMMEDIATE 4076  
RUEHKSO/AMCONSUL SAPPORO IMMEDIATE 0904  
RUEHNH/AMCONSUL NAHA IMMEDIATE 2684  
RUEHFK/AMCONSUL FUKUOKA IMMEDIATE 0331  
RUEATRS/TREASURY DEPT WASHDC IMMEDIATE  
RUCPDO/DEPT OF COMMERCE WASHINGTON DC IMMEDIATE  
RUEHBS/USEU BRUSSELS IMMEDIATE

C O N F I D E N T I A L TOKYO 002842

SIPDIS

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SUBJECT: SMALL LIFE INSURER FAILS AMID MARKET VOLATILITY

Classified By: Ambassador J. Thomas Schieffer for reasons 1.4 b/d.

#### Summary

¶1. (C) Yamato Life Insurance filed for bankruptcy October 10.

Media reports linked the company's failure to losses incurred from subprime mortgage-backed securities, but regulators noted the company has long struggled with high costs and failed to adapt to new sales methods. Pointing to Yamato's small size, a Financial Services Agency (FSA) official told Emboffs he expects Yamato's bankruptcy will have no broad impact on the Japanese or global markets. End summary.

#### First Life Insurance Bankruptcy Since 2001

¶2. (SBU) Founded in 1911, Yamato was one of Japan's oldest life insurance companies. It was also one of the smallest. It had approximately 180,000 policies in force and 1,000 employees. As of the end of the first quarter of 2008, it reported assets of approximately \$2.8 billion. Yamato's bankruptcy filing is the first for a Japanese insurance company since 2001 and is only the eighth failure of a Japanese life insurance company since 1945.

¶3. (SBU) Economic and Fiscal Policy Minister Yosano and Finance Minister Nakagawa (from Washington) downplayed the effect of the bankruptcy on the Japanese economy, noting Yamato's small size and telling the media Yamato failed because of its "extraordinary business model" and "risky" practices. They emphasized Yamato's dependence on high returns as part of its business model was unlike the rest of Japanese life insurers.

¶4. (C) Privately, FSA Director of Insurance Supervision Hasegawa told Emboffs Yamato's high labor costs had made it uncompetitive. While other insurers had moved to marketing over the Internet and through banks, he explained, Yamato had maintained an expensive network of door-to-door salespeople. The need to offset those costs through greater returns on assets had led to the company's aggressive investment strategy.

¶5. (C) Yamato had been exposed to subprime-mortgage backed assets, continued Hasegawa, but they had sold those off at a loss by the end of March 2008. Recent large losses came from

drops in the prices of stocks, mutual funds, and real estate investment trusts.

#### No Broader Market Effect, Says Official

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16. (C) Commenting on the broader Japanese market, Hasegawa said the FSA had heard informally from companies that recent sharp drops in stock values had turned some unrealized profits into unrealized losses, and he said the FSA was closely monitoring the situation. No other life or non-life company is in similar straights to Yamato, he added, concluding Yamato's failure "will not affect the Japanese system overall or the global financial system."

SCHIEFFER